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Development

THE WORLD COCOA MARKET

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THE WORLD COCOA MARKET

The general public is becoming increasingly irritated over the repeated rises in the retail prices of coffee, cocoa products and tea. Over the past three years, the price of cocoa has increased dramatically: the world price rose from approximately 55 cents/lb in 1975 to over 200 cents/lb in mid-1977, though it subsequently dropped to around 150 cents, which must still be regarded as high.

Consequently the International Cocoa Agreement, which came into force on 1 October 1976 for a three-year period and is based on export quotas and the purchase of surpluses for a buffer stock, has not come into operation and has had to protect the minimum price. Preparations are likely to begin shortly for the negotiations on the third Agreement, which will have to be very different from the first two in order to restore some degree of balance on the cocoa market. At present there is a relative shortage of the commodity, primarily because of a drop in production by certain major producer countries in West Africa (Ghana and Nigeria). On the other hand, countries such as Ivory Coast and Brazil have chosen to expand their production intensively and will soon emerge as world leaders in the market.

Experts forecast that the 1977/78 crop year, to end in late September, will result in the production of roughly 1.5 million tonnes, export revenue of over USD 3 000 million and a surplus of supplies over demand owing to a drop in consumption. Despite this state of affairs, prices could remain fairly high since there is a shortage of immediately available cocoa. The consumer countries at present have only limited stocks and will have to build them up. Certain consumers, such as the Eastern European countries, might step up their cocoa imports considerably once world prices have calmed down. Nevertheless, the high cost of cocoa has had several logical consequences: a drop in consumption in importing countries, since this commodity cannot, after all, be said to be a basic necessity of life, and a growing trend towards using substitute products (vegetable fats) in the manufacture of chocolate, in particular in the EEC countries and the United States, the leading world cocoa importers.

Price difficulties for the African planter

Five of the six main cocoa producers in the world are ACP (African, Caribbean and Pacific) States, members of the Lomé Convention: Ghana, Nigeria, Ivory Coast, Cameroon and Togo. However, this situation is changing. Whereas in 1964/65 Ghana produced over 560 000 tonnes of cocoa, i.e. 47% of total world production, its present output is hardly outstanding for in all it will have produced only about 300 000 tonnes during the 1977/78 crop year, a fifth of total world production. According to longer-term forecasts, Ghana's cocoa production can be expected to decline progressively as a result of the low producer prices, high inflation, the exodus of farmers to the towns, the ageing of cacao-trees and inadequate research. The cacao-tree does not become productive until several years after it has been planted. In addition it is fragile and vulnerable to a variety of diseases. Research is therefore important, and this is hardly made any easier by the fact that in Africa cacao-trees are cultivated basically by family units.

The most effective incentive would be to offer the planter a price that made cocoa as attractive as other crops, in particular food crops. The African planter receives a guaranteed price, fixed annually by the Government. This price is imposed on him by Boards of Stabilization Funds, which 'pocket' the difference between it and the world price (minus, of course, packaging and freight costs, insurance and taxes). For instance, the Ghanaian planter in practice receives only 10 cents/lb as opposed to 53 cents. It is therefore hardly surprising that during the present crop year 30 000 - 50 000 tonnes of Ghanaian cocoa have been smuggled into Ivory Coast.

The Brazilian planter, on the other hand, receives almost the full world price (after taxes have been deducted). Brazil is currently competing with Nigeria and the Ivory Coast for the position of second largest cocoa producer in the world. Traditionally it exports its cocoa (beans and cocoa products, i.e., butter, powder and paste) to the United States market, since Brazilian cocoa up to now has met with little enthusiasm in Europe, especially on the part of British cocoa processers. Brazil's target in stepping up cocoa production is an ambitious one: an increase in production from the nearly 250 000 tonnes estimated for this crop year to 700 000 tonnes by 1990. Brazilian agriculture is considerably more sophisticated than that of the West African countries and it is backed by solid experience of the world markets in commodities such as coffee, sugar and oil-seeds. Brazil also has a sounder industrial base and is therefore better placed than Africa when it comes to processing its produce for export. Like the Ivory Coast, it is well aware of the dangers involved in expanding its production too fast, for, even if not in the immediate future, these countries might one day have to contend with a real surplus situation, which would cut prices back to unprofitable levels. Their concern is therefore to get the consumer countries to undertake, in the International Cocoa Agreement, to guarantee them sufficiently high prices. They still, however, have to overcome considerable reluctance on the part of several consumer countries.

The EEC is concerned with the financial implications for the Community of a slump in world prices, even if there seems to be no immediate danger of that happening. The export earnings stabilization system introduced under the Lomé Convention provides for compensation for any loss of earnings from exports incurred by the African, Caribbean and Pacific (ACP) countries and, in the light of current prices, such compensation would be extremely expensive in the case of cocoa even though there is a ceiling for financial transfers under this head. Two ACP countries have to date received transfers to offset losses of earnings from cocoa exports: Western Samoa, which was allocated 277 000 units of account (1 unit of account = USD 1.20) for 1975 and Cameroon, which received 464 000 units of account for 1976.

A more realistic new international agreement

When the first international agreement was concluded in 1972 after negotiations lasting fifteen years, and subsequently renewed in 1975, there were hopes that at last cocoa prices would tend to stabilize. Unfortunately, however, this agreement cannot be said to have achieved its purpose, despite its sophisticated mechanisms, including export quotas, maximum and minimum prices and a buffer stock. Since 1972, cocoa prices have risen higher and higher and market prices have invariably exceeded the maximum laid down. There has been no need to apply export quotas and the producer countries have had no occasion to sell to the buffer stock, which in its turn has not been in a position to protect the maximum price since it could not sell cocoa which it did not have. Indeed over the years it has acquired quite considerable sums, namely almost USD 150 million, for the buffer stock is financed by a levy of 1 cent/lb on cocoa coming onto the international market.

It would seem essential to bring the maximum and minimum prices more in line with the actual market situation. The very first year for which the second International Agreement was applicable, the producer countries broached the issue of price reviews at the instigation of Ivory Coast, which was dissatisfied with the prices negotiated in 1975. It is worth noting that the price bracket was raised, on 1 October 1977, from 39 - 55 cents/lb to 65 - 81 cents/lb. Even these prices are far removed from the present level, which is around 150 cents. More realistic maximum and minimum prices are needed to limit excessive fluctuations of the market and discourage speculation – a feature of the cocoa market – and in particular a more flexible Agreement must be achieved. The United States, the second largest importer of cocoa beans and products in the world, might well decide, after remaining outside the first two Agreements, to become a party to the next one and has urged that it should embody a very flexible mechanism, consisting of a buffer stock to buy or sell cocoa on the market on the basis of trigger prices. When this proposal was submitted to the *ad hoc* Committee of producer and consumer countries in London in June, it received quite a favourable reception from producers and consumers alike (apart from the USSR, whose hesitations seemed mainly to be political). It is highly likely that the International Cocoa Council will decide that the present agreement should be renegotiated instead of just prolonged. The International Negotiating Conference, to be convened at the beginning of next year, will be left to discuss the machinery of this new, more flexible Agreement, which may give the International Council greater freedom of movement than at present.

Declining consumption and increasing interest in substitutes

Though cocoa prices have been high since 1976, it is only now that consumption has declined somewhat in Europe and in the United States since the market takes some time to adjust to price levels. Above a certain price the consumer tends to cut down his purchase or turn instead to other products which may be different but fulfil roughly the same function (will jam, biscuits or ice-cream, for instance, oust the chocolate bar?). To avoid such a situation arising, firms are trying to find solutions such as reducing the cocoa content of the finished product, which is possible in some countries, or opting for filled chocolate or articles using other products such as milk, almonds, hazelnuts, etc.

Alternatively, substitutes can be used and in particular cocoa butter can be replaced by other less expensive vegetable fats (in particular palm oil and karite nut butter). According to the experts, roughly 15% of the fat content of chocolate can be replaced by cocoa butter substitutes without affecting the taste of the product or the time it will keep. This 15% is equivalent to a 5% substitutes content in relation to the chocolate as a whole. Perhaps the EEC directive on chocolate could therefore authorize the use, up to a limit of 5%, of other vegetable fats than cocoa butter in chocolate, as is already the case in the three new Member States of the EEC (United Kingdom, Denmark and Ireland). Countries such as France, Germany and Belgium, with a long-standing tradition of chocolate-making are still very reluctant to take such a step and favour the introduction of a very tight control system. The experts calculate that more liberal manufacturing standards would mean that 40 000 tonnes (at most) of substitutes could in this way replace 40 000 tonnes of cocoa butter (equivalent to 100 000 tonnes of beans) in the nine EEC Member States.

An increasing trend towards crushing and the manufacture of cocoa products in the producer countries could hit the Netherlands in particular in the future, since this country has always imported far more cocoa beans than its domestic consumption requires. The normal practice in the Netherlands, but not in its neighbour Belgium, for example, has always been to process cocoa industrially and subsequently to export the resulting cocoa and chocolate products. Some countries have actually encouraged the setting-up of cocoa bean processing factories in the producer countries. In the not-so-distant future cocoa supplies to the consumer countries will doubtless tend more and more to take the form of semi-finished products.

TABLE I

Cocoa bean prices for the period 1972-77

(New York Exchange (cents/lb — two months)

Year	Arithmetic mean for the year	Maximum for the year	Minimum for the year
1972	28.48	34.48	21.28
1973	52.80	85.20	31.70
1974	74.65	104.50	51.60
1975	56.58	75.15	41.10
1976	95.78	145.50	62.50
1977	174.94	227.25	138.40

TABLE II

Cocoa beans: Production Trend 1972/73 - 1977/78

('000 tonnes)

Region	1972/73	1973/74	1974/75	1975/76	1976/77	Estimates 1977/78
North-America:						
Costa Rica	4.6	6.5	6.6	5.8	7.8	8.0
Cuba	2.0	2.0	2.0	2.0	2.0	2.0
Dominican Republic	28.0	37.0	33.0	34.0	34.0	35.0
Grenada	2.5	2.5	2.4	2.9	2.9	2.9
Guatemala	.8	.8	.8	.8	.8	.8
Haiti	3.0	3.0	3.0	3.0	3.0	3.0
Honduras	.3	.3	.3	.3	.3	.3
Jamaica	2.1	1.6	1.8	2.0	2.0	2.0
Mexico	29.6	30.0	32.7	33.0	24.1	34.0
Nicaragua	.5	.5	.5	.5	.5	.5
Panama	.5	.5	.7	.5	.5	.5
Trinidad and Tobago	5.1	3.6	5.1	2.4	4.1	4.5
Others	.4	.4	.4	.4	.4	.4
Total	79.4	88.7	89.3	87.6	82.4	93.9
South-America:						
Bolivia	1.4	2.4	2.7	2.7	2.7	2.8
Brazil	158.7	245.5	266.6	257.4	234.0	246.0
Colombia	20.0	23.0	25.0	26.0	28.0	31.0
Ecuador	43.0	72.0	75.0	64.0	68.0	72.0
Peru	2.0	2.0	2.0	2.0	2.0	2.0
Surinam	.1	.1	.1	.1	.1	.1
Venezuela	16.7	17.4	17.3	19.3	16.6	21.0
Total	241.9	362.4	388.7	371.5	351.4	374.9
Africa:						
Angola	.5	.5	.4	.2	.2	.2
Cameroon	106.9	109.9	117.8	96.0	84.5	100.0
Comoro Islands	.1	.1	.1	.1	.1	.1
Congo, Brazzaville	2.0	2.0	2.0	2.5	2.5	2.5
Equatorial Guinea	15.0	12.0	12.0	12.0	5.0	5.0
Gabon	5.0	5.0	5.0	5.0	5.0	5.0
Ghana	420.0	353.0	375.0	397.0	325.0	300.0
Ivory Coast	185.4	208.5	242.0	231.0	230.0	285.0
Liberia	2.3	3.2	2.8	2.8	3.0	3.0
Malagasy Republic	1.2	1.2	1.4	1.4	1.5	1.6
Nigeria	264.0	218.0	213.0	217.0	165.0	210.0
Sao Tome and Principe	10.0	10.0	8.0	6.0	6.0	6.0
Sierra Leone	6.6	7.7	4.7	6.1	6.3	5.5
Tanzania	.6	.7	.7	.8	.8	.8
Togo	20.0	16.5	14.5	17.8	15.0	17.0
Uganda	.2	.2	.1	.1	.1	.1
Zaire	6.0	6.0	6.0	5.0	5.0	5.0
Total	1 045.8	954.5	1 005.5	1 000.8	855.0	946.8
Asia and Oceania:						
Indonesia	3.0	3.5	3.9	3.7	4.0	4.0
Malaysia	7.0	11.0	13.0	16.0	20.0	24.0
New Hebrides	.8	.6	.7	.7	.7	.7
Papua New Guinea	22.0	31.0	33.3	31.3	27.8	31.0
Philippines	3.5	4.1	3.6	3.3	3.5	3.5
Sri Lanka	2.0	2.0	2.0	2.0	2.0	2.0
Western Samoa	1.0	1.7	1.5	1.6	1.5	1.7
Total	39.3	53.9	58.0	58.6	59.5	66.9
Grand total	1 406.4	1 459.5	1 541.5	1 518.5	1 348.3	1 482.5

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